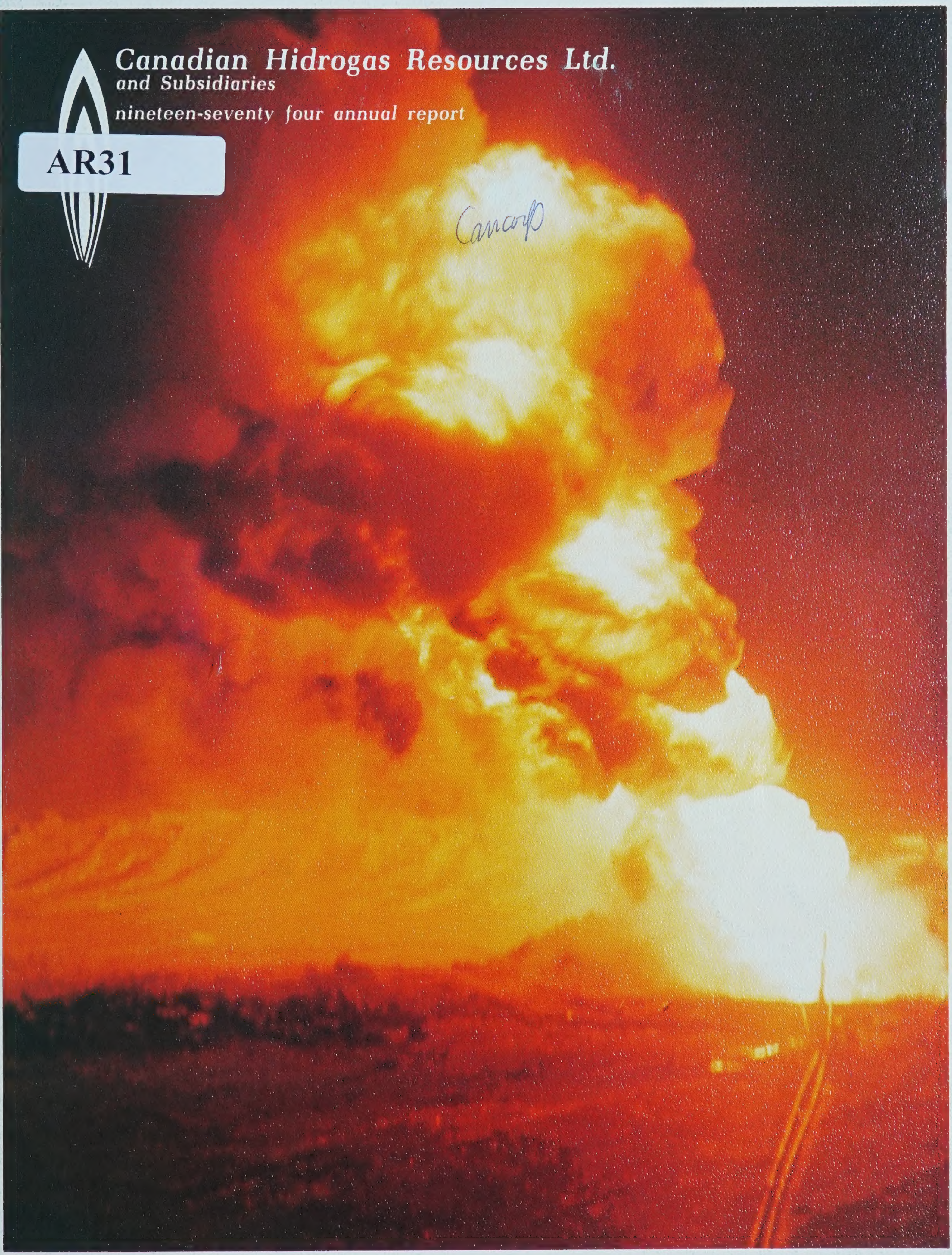
Canadian Hidrogas Resources Ltd.
and Subsidiaries

nineteen-seventy four annual report

Cancorp



directors:

Evan W. G. Bodrug — Calgary
Arthur F. Coady — Calgary
Noah Cohen — Calgary
Robert C. Jeal — Calgary
Henry W. Klassen — Calgary
Benjamin J. McConnell — Vancouver

officers:

Evan W. G. Bodrug — President
Noah Cohen — Vice President
M. Laurence Steer — Treasurer
Arthur F. Coady — Secretary
Robert C. Jeal — Controller

head office:

Suite 1000
610 - 8th Ave. S.W.
CALGARY, ALBERTA T2P 1G5

transfer agent:

National Trust Company Limited

bank:

Bank of Montreal

auditors:

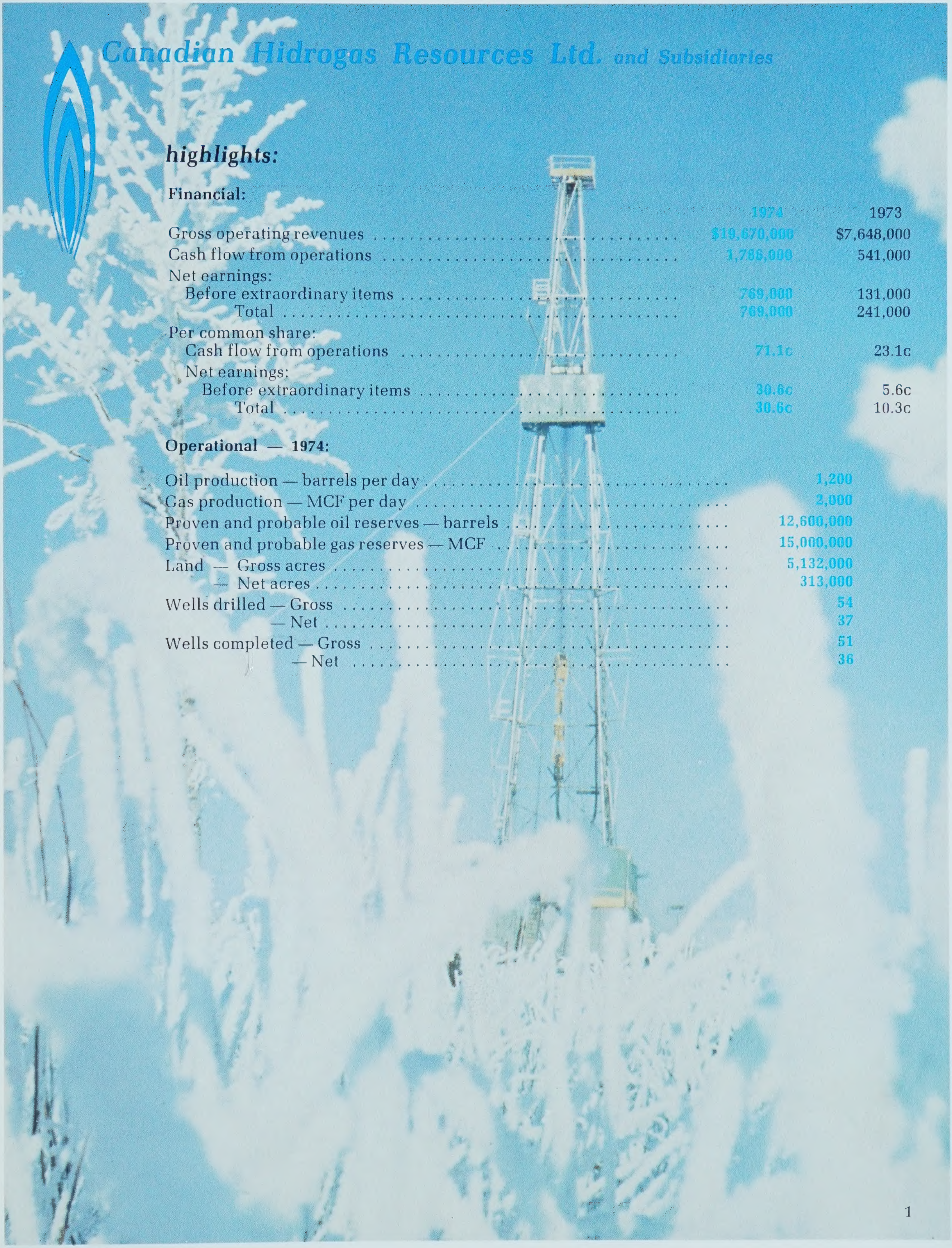
Deloitte, Haskins & Sells — Calgary

shares listed:

Vancouver Stock Exchange
Calgary Stock Exchange

share symbol:

CHS



Canadian Hidrogas Resources Ltd. and Subsidiaries

highlights:

Financial:

	1974	1973
Gross operating revenues	$19,670,000	$7,648,000
Cash flow from operations	1,786,000	541,000
Net earnings:		
Before extraordinary items	769,000	131,000
Total	769,000	241,000
Per common share:		
Cash flow from operations	71.1c	23.1c
Net earnings:		
Before extraordinary items	30.6c	5.6c
Total	30.6c	10.3c

Operational — 1974:

Oil production — barrels per day	1,200
Gas production — MCF per day	2,000
Proven and probable oil reserves — barrels	12,600,000
Proven and probable gas reserves — MCF	15,000,000
Land — Gross acres	5,132,000
— Net acres	313,000
Wells drilled — Gross	54
— Net	37
Wells completed — Gross	51
— Net	36

president's report

To the Shareholders

The 1974 fiscal year was one of outstanding growth for your company. Gross revenue has increased $12,023,000 to $19,670,000, an increase of 257%, and net income has risen 319% to 769,000, an increase of $528,000 over the previous year. With this significant growth, your company has achieved the plateau which categorizes a medium sized resource company.

Over the past five years your company has aggressively followed the policy of building a sound operating structure, with specific reference to personnel and assets. We are now evidencing the accomplishment of this purpose and as a result of this structure we are now in an excellent position to expand our programs for long-term growth and profitability.

Our asset expansion, particularly through the development and acquisition of proven and probable oil and gas reserves during the past year, will contribute significantly to our future growth, as evidenced by appraisal from recognized independent consultants. The results of these appraisals at year end indicate assets capable of producing cash flow having a present worth in excess of $25,000,000 (discounted at 12% per annum). Vigorous efforts will be made to increase this asset base through additional drilling, development and acquisitions.

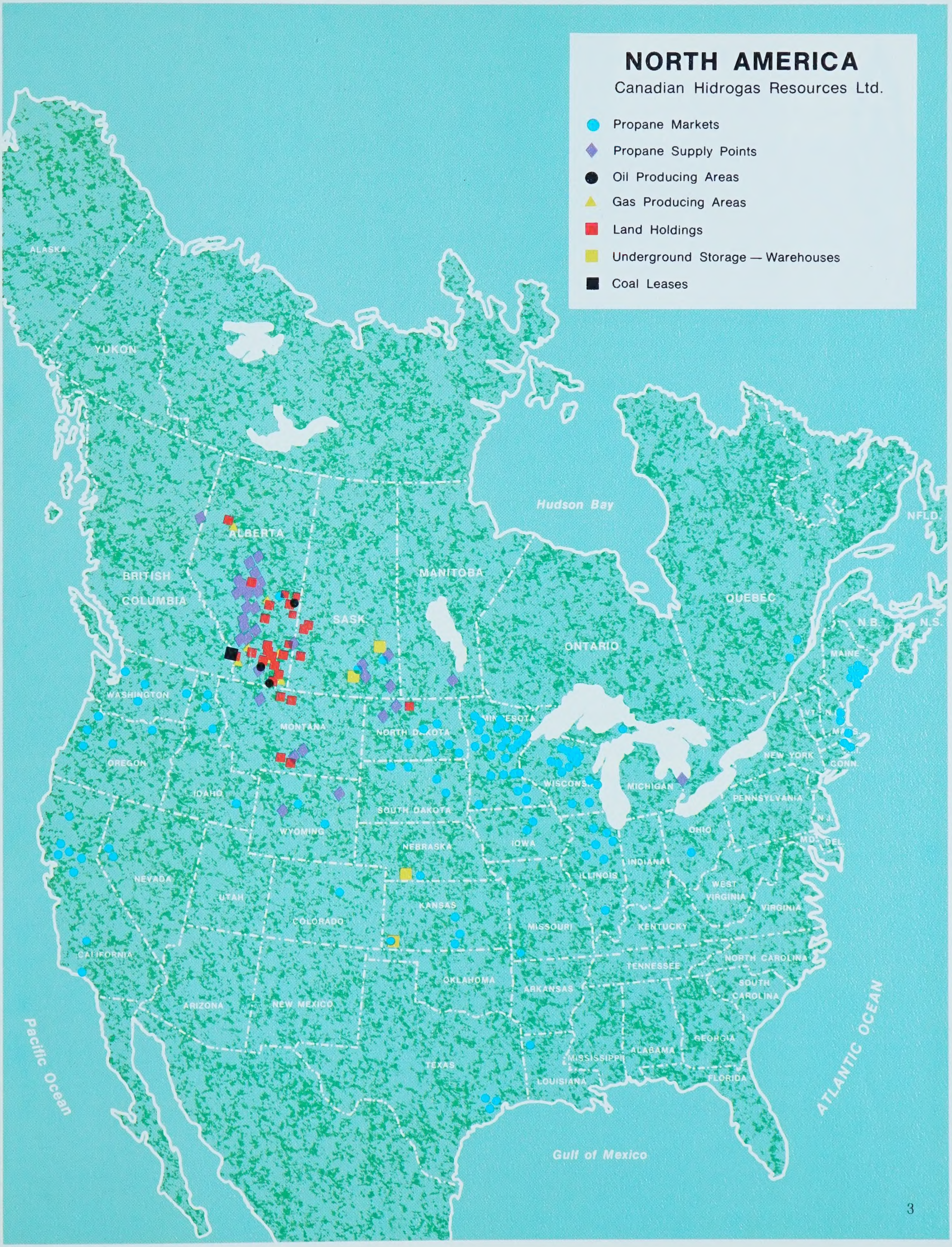
Your company is already well established in the marketing and merchandising fields and will continue to advance in the sales and service areas by both expanding the penetration of the market for the products which we already handle and seeking the opportunity to obtain a position to operate in areas where new products, new methods or new scientific approaches show that promise exists.

We extend our appreciation to our employees for their efforts in helping us reach our goals. We also wish to assure our stockholders that we will continue our efforts to serve their interests.

Respectfully submitted on behalf of
the Board of Directors

Evan Bodrug

Evan Bodrug
President


NORTH AMERICA
Canadian Hidrogas Resources Ltd.
Propane Markets
Propane Supply Points
Oil Producing Areas
Gas Producing Areas
Land Holdings
Underground Storage — Warehouses
Coal Leases
ALASKA
YUKON
BRITISH COLUMBIA
ALBERTA
SASK.
MANITOBA
Hudson Bay
ONTARIO
QUEBEC
NFLD.
N.B.
N.S.
MAINE
VT.
WASHINGTON
MONTANA
OREGON
IDAHO
SOUTH DAKOTA
WYOMING
WISCONSIN
MICHIGAN
NEW YORK
CONN.
PENNSYLVANIA
N.J.
DEL.
OHIO
IOWA
NEBRASKA
INDIANA
ILLINOIS
NEVADA
UTAH
COLORADO
KANSAS
MISSOURI
KENTUCKY
WEST VIRGINIA
VIRGINIA
CALIFORNIA
TENNESSEE
NORTH CAROLINA
SOUTH CAROLINA
OKLAHOMA
ARKANSAS
ARIZONA
NEW MEXICO
GEORGIA
ALABAMA
MISSISSIPPI
TEXAS
LOUISIANA
FLORIDA
Pacific Ocean
ATLANTIC OCEAN
Gulf of Mexico

the company

Left to right on the above picture: Bill Ketcheson, Sales Co-ordinator Petroleum Products; Bob Jeal, Controller; Paul Yeoman, Manager of Operations; Larry Heald, Legal; Wally Derbyshire, Manager Special Products Sales; Larry Steer, Vice President Marketing; Gary Woolsey, Traffic Manager; Byron MacKenzie, Sales Co-ordinator Special Products. Missing from the picture is Noah Cohen, Vice-President, and Gary Follensbee, Production Engineer.

operation

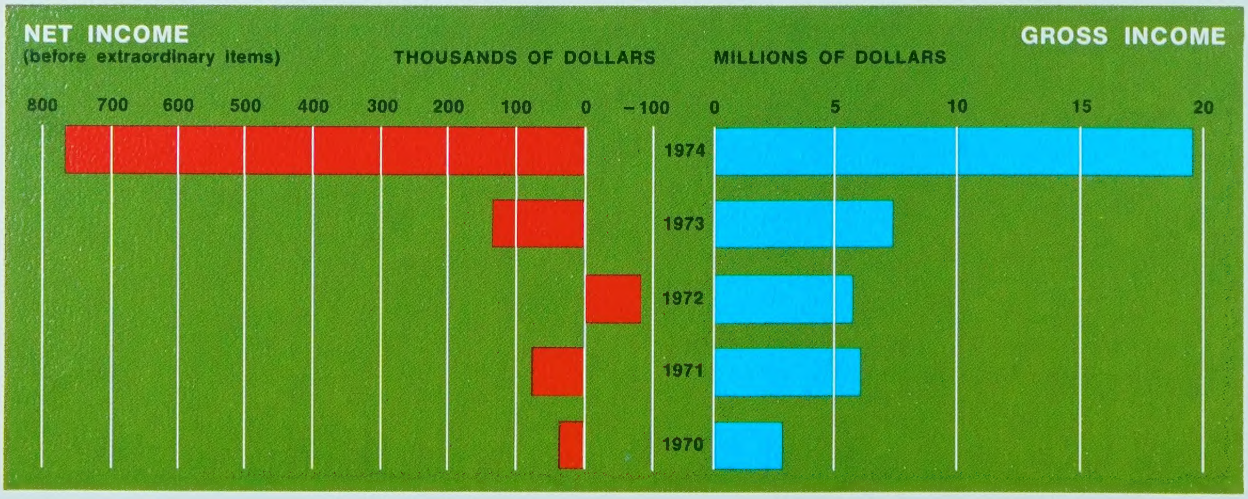
The personnel in the group pictured above are the executive and department heads of the parent and subsidiary companies. Together this group has a total accumulated business related experience of over one hundred years. To this operating team goes the greatest credit for the marked advances that your company has made. Each man has taken and fulfilled the responsibility in his area of activity.

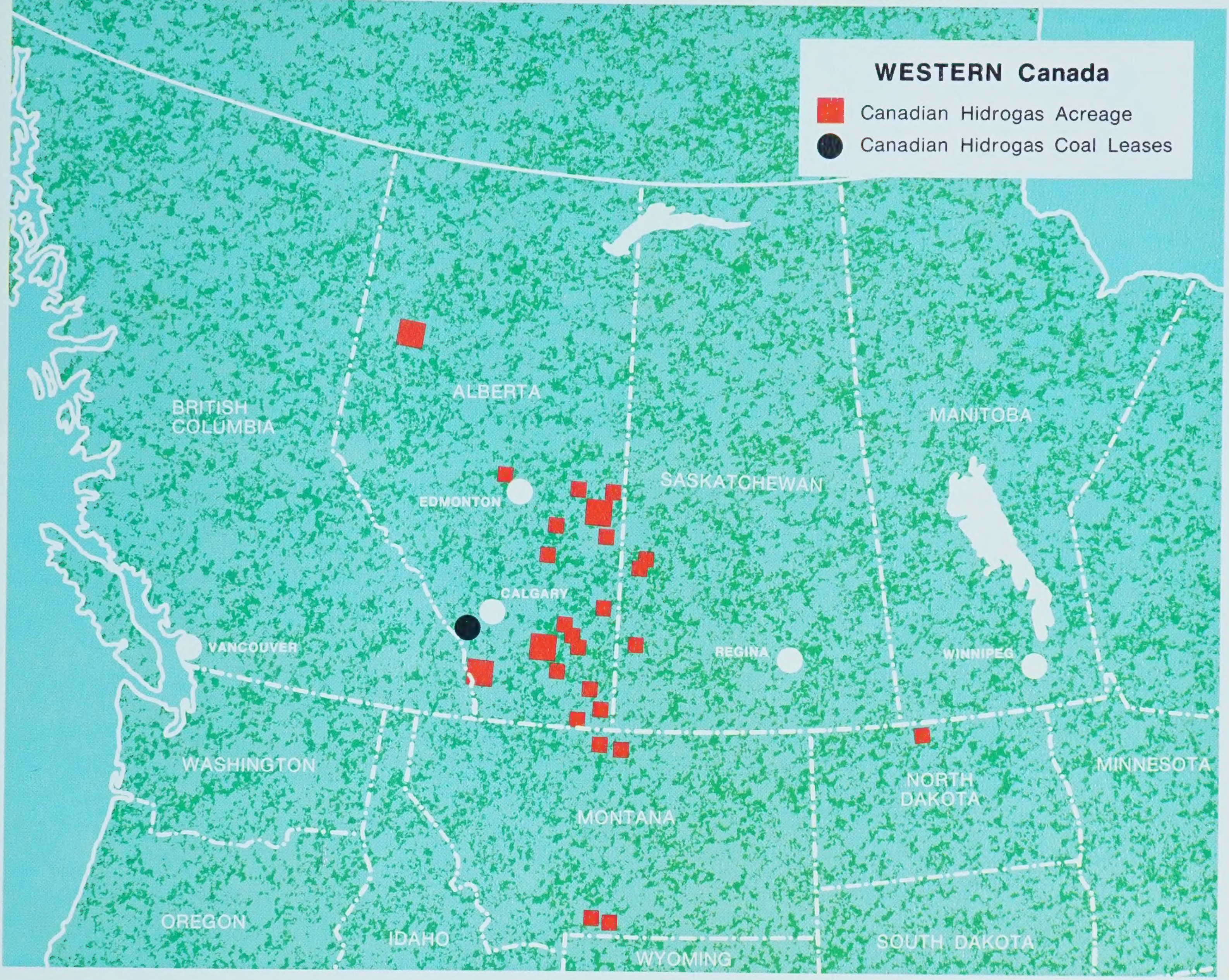
With the personnel base of the type your company now has, it becomes possible to readily expand into new areas of opportunity, both in resource and industrial fields. The realization of this possibility has been proven in the past and the continued application of the practiced principles should be reflected in future growth in all divisions of the company.

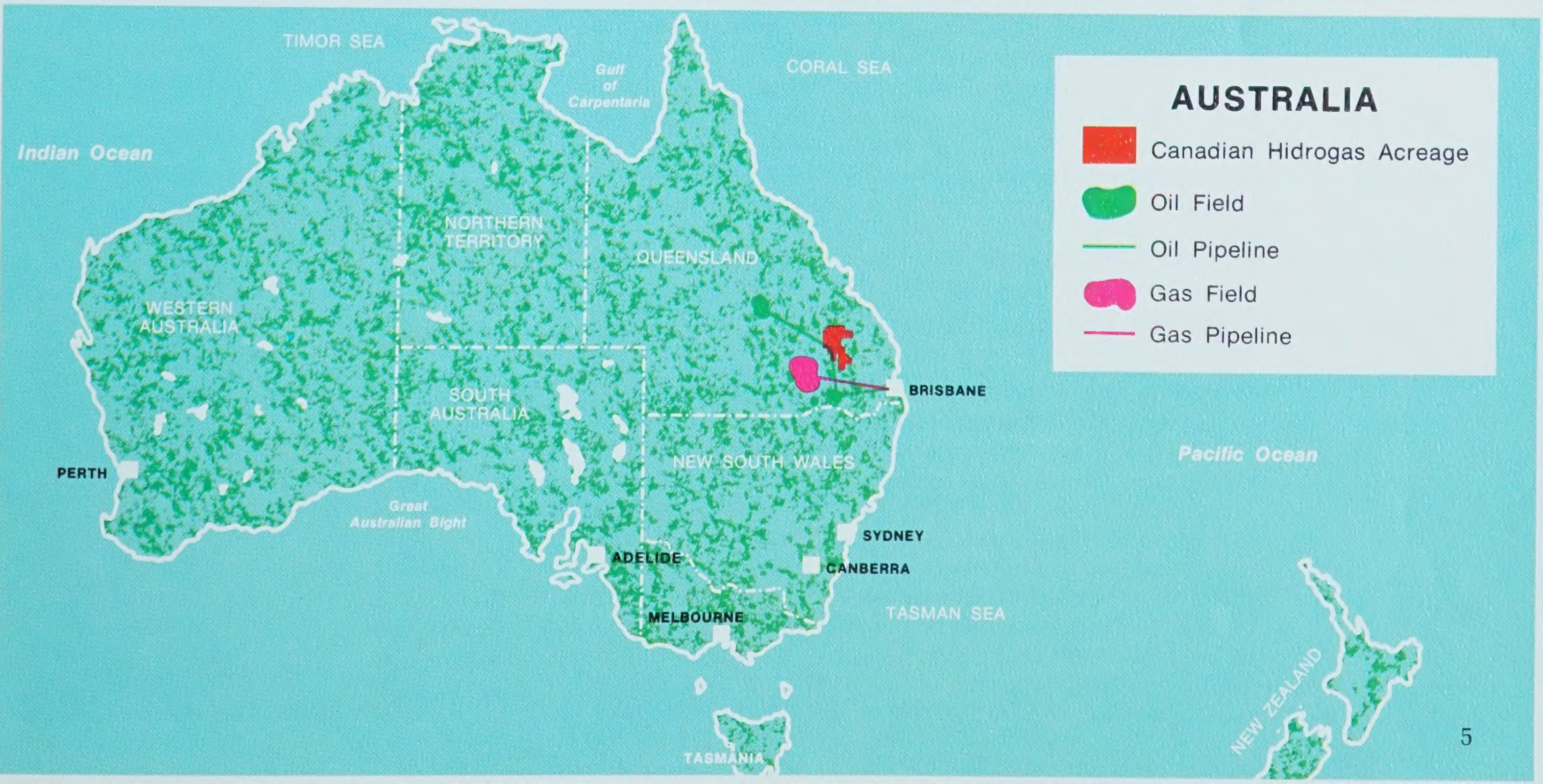
the company's growth

The illustration below shows the financial growth of your company over the past five years. During this period, gross income has increased sixfold and net income (before extraordinary items) has increased more than eighteen times. This represents an average percentage growth of 60% per year for gross income and 124% for net income (before extraordinary items).

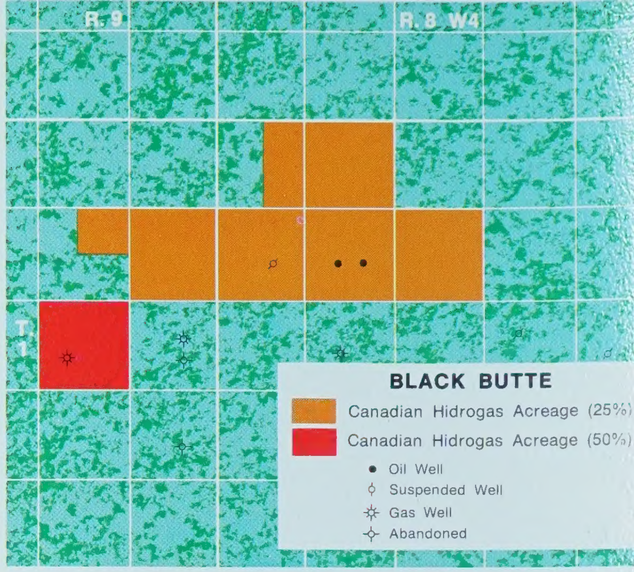
This uniform average figure is experienced very seldom in business growth on a year by year basis. The ability of a company to rebound from some adverse conditions and show development over a period of years demonstrates that company's solidarity. It will be noted that these achievements have been accomplished despite a loss experienced in 1972. The reason for this loss was the price freeze initiated in the winter of 1971-1972 on Propanes and Butanes in the United States as explained in our annual report of that year. This unexpected experience resulted in your company planning its strategy to cope with such impositions and the results in the two ensuing years prove the effectiveness of this strategy.




WESTERN Canada
Canadian Hidrogas Acreage
Canadian Hidrogas Coal Leases
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
MANITOBA
EDMONTON
CALGARY
VANCOUVER
REGINA
WINNIPEG
WASHINGTON
MONTANA
NORTH DAKOTA
MINNESOTA
OREGON
IDAHO
WYOMING
SOUTH DAKOTA


AUSTRALIA
Canadian Hidrogas Acreage
Oil Field
Oil Pipeline
Gas Field
Gas Pipeline
TIMOR SEA
Gulf of Carpentaria
CORAL SEA
Indian Ocean
NORTHERN TERRITORY
QUEENSLAND
WESTERN AUSTRALIA
SOUTH AUSTRALIA
BRISBANE
NEW SOUTH WALES
Pacific Ocean
PERTH
Great Australian Bight
SYDNEY
ADELIDE
CANBERRA
MELBOURNE
TASMAN SEA
NEW ZEALAND
TASMANIA

oil production



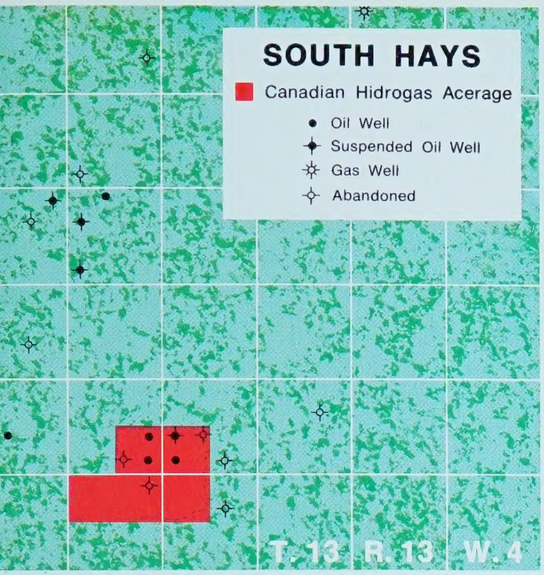
lloydminster

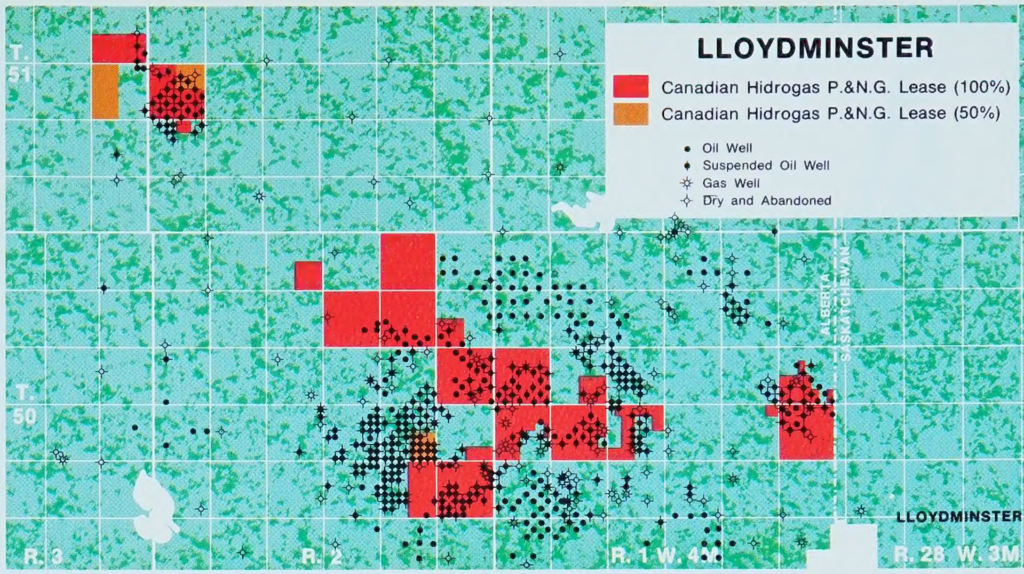
Late in the calendar year of 1973, your company acquired 100% interest in 7,600 acres of heavy oil lands in the Lloydminster area of Alberta and, subsequent to that time further acquisitions have resulted in obtaining a further 100% interest in 1,040 acres and a 50% working interest in 960 acres.

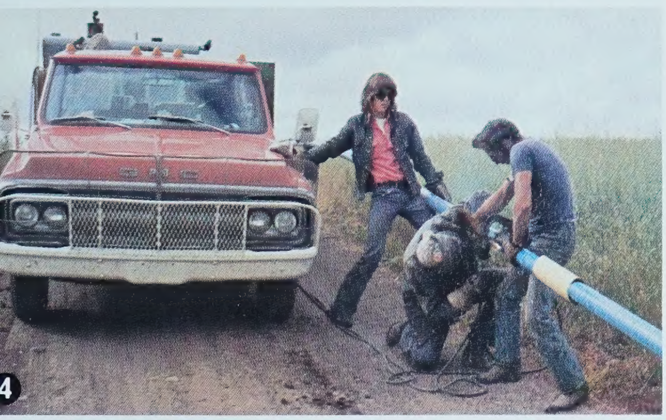
The locations of all of these fields are shown on the above map and are located in four areas: Blackfoot, Till, Kitscoty and South Lloydminster, all in Alberta and in close proximity to one another. The indication of the number of completed oil wells drilled in these fields reveal that essentially all of these areas are underlain by oil reserves. Many of these wells were drilled in the early 1950's and were not produced for any appreciable length of time because of the low price of heavy oil and the economics of production.

Since that time, the well head price of oil has increased by approximately three times and the technology of recovering has also improved. At present day prices, each new well has a payout time of two years or less. Recent engineering evaluations prepared by an independent experienced consulting firm gives a present worth to the original 7,600 acres acquired in excess of $17,000,000 based on a cash flow discounted at 12% per year. Since acquisition of these heavy oil properties, your company has re-entered 24 of the original wells, all of which have been brought back into production. In addition to this, 27 new wells have been drilled and all but one are indicated oil successes. It is anticipated at this time that up to 80 additional wells will be drilled before all probable and potential oil pools are fully defined and proper drainage of these reserves permitted.

Present technological practices on recovery of this type of oil recognizes only about 10% recovery of the oil in place. More attention is being paid recently to the recovery techniques of heavy oil by both government and industry. Substantial sums have been committed by these groups to research this aspect and it can be expected that improved technology will permit greater recovery of these vast resources. We estimate that an improvement of one percentage point in recovery would result in excess of an additional one million barrels of production for your company. It is conservatively estimated that there are well over 100,000,000 barrels of oil in place underlying







the lands in which your company holds an interest in this area. Continuing development will be undertaken until optimum daily oil production is obtained. With our present procedure, it is estimated that this production rate is in excess of 3,000 barrels per day. At present prices this would be an annual gross income of over $6,000,000.

other areas

In addition to this area previously discussed, your company also holds oil producing interests in the South Hays field consisting of a working interest of 25% in this production. Also a working interest of 25% is held in the oil production at Black Butte, Alberta. These locations are shown on the above map. These fields are under the operational control of other companies.

① Field Superintendent — Darwin Dean works from his office in Lloydminster.

② Company transportation and trucks with oil well pumpjacks in background.

③ A producing oil well showing pumpjack and production tanks.

④ Field crew welding oil gathering lines.

⑤ New pumpjacks ready for installation on new wells — truck in background is used for delivery of crude oil.

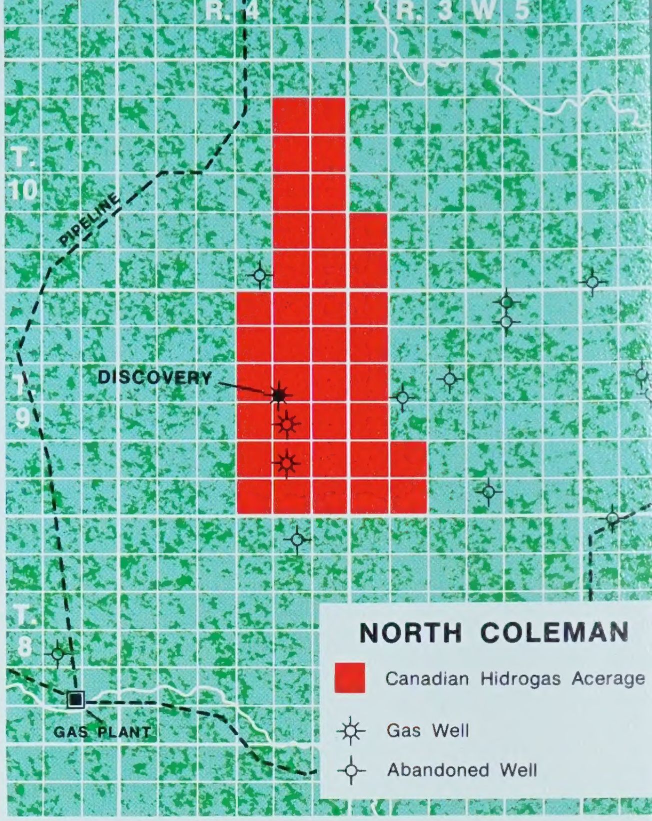
⑥ Drilling rig on location as new well is being drilled.

proven gas reserves

The map on page 3 shows the locations where your company holds interests in proven gas reserves. Presently, production is in progress from the Medicine Hat, Princess, Manning, Bindloss, Bruce, Atlee-Buffalo and Aden fields. Plans are underway for the full development of the Princess area where your company has a 25% working interest and is the operator of this field on behalf of other working interest owners. Your company's interest in this operation is estimated to yield a cash flow in excess of $200,000 per year when this development is completed.

Also slated for production in the year 1975 is the North Coleman field. Your company has a 5% working interest in this field. The most recent engineering evaluation by an independent engineering company, after allowances for royalties, amount to net reserves to your company of 10 billion cubic feet of Natural Gas and 146,000 long tons of Sulphur. When the full presently contracted rate of production is reached, this interest would result in an approximate cash flow to your company of $200,000 per year.

Other areas where proven gas has been developed are Burstall, Saskatchewan where your company holds a net interest of 3% in 100,000 acres and Portreeve, Saskatchewan where a 10% interest in 43,000 acres is held; development of these areas is awaiting a stabilized policy for Natural Gas.

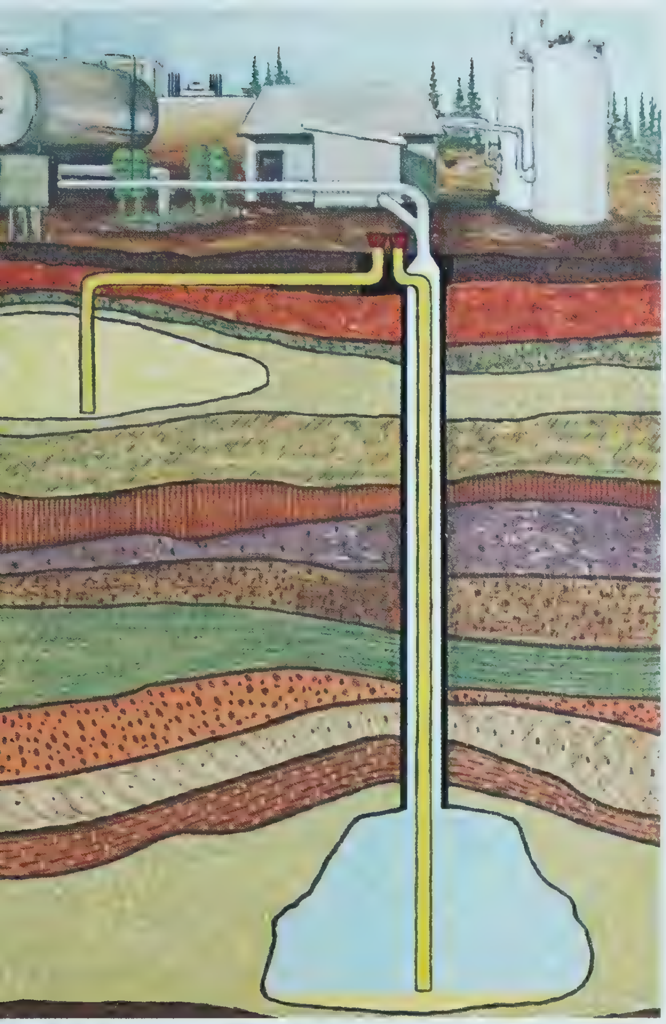


ILLUSTRATION

The illustration opposite shows the depth of drilling in the North Coleman field and the approximate occurrences of the Gas on two horizons. A total of three wells have been drilled on this property. The last well tested a total of 34 million cubic feet per day against a pressure of over 1000 pounds per square inch.

The front cover picture illustrates a typical well under test with the upcoming gas being burnt off.

① Rail tank cars — 30,000 gallon capacity.
② Loading rack at underground storage facility in Saskatchewan operated by Procor Limited.



propane and butane marketing

Illustrated on page 3 of this report are the locations of supply of Propane and Butane, the locations of Underground Storage which serve for warehousing inventory and the points on the Continent where the product is marketed. The production of Propane and Butane is in conjunction with either the production of Natural Gas or the Refining of Oil. The demand for these products is seasonal because of their use for heating energy. It is therefore essential that the marketing of these products must rely on transportation and inventory, both of which must be substantial because of high Winter/Summer ratios of consumption and almost uniform annual production.

In the past year your company handled over four million barrels of this product through its wholesale marketing operation which is approximately equivalent to 5½% of the total annual production in Canada. The total loaded volume of tank car transportation under the control of the company is 7,300,000 gallons in 243 tank cars. This capacity is roughly equivalent to the total Canadian daily production of Propane and Butane. The underground storage for inventory to which your company has access is over 70,000,000 gallons. The marketing requirement for these products shall continue to exist as many producing companies do not have their own marketing departments and therefore, must rely on some form of marketing agency.

Propane and Butane are known as vapor pressure products which means that they must be stored in pressure tight containers or the liquid product will vaporize away into a gas. This is why it is necessary to store the product underground where pressure can be maintained and the product remain in liquid form. The underground storage technique is illustrated on the left. First the cavern is leached out of an underground salt bed with fresh water and when sufficient size is obtained, the cavern is used to store product. The product is pumped down under pressure to the top of the body of salt water because it is lighter than salt water. The salt water is displaced from the bottom of the cavern until the cavern is full of product. To recover the product, the procedure is reversed. The salt water, both from the leaching process and storage process, is disposed of in an underground salt water producing formation. Salt water for product displacement is also obtained from this formation. A surface pond is available for salt water storage so that rapid removal of the product can be obtained.

special products

Astro-Plated Automobile

Your company has always kept a watchful eye for opportunity, especially in fields of activity either directly or indirectly related to the business enterprises in which we are already active. We have already obtained marketing rights for products such as lubricating oils, car care products and industrial cleaners. In the case of the Astro line, we market exclusively for all of Canada. We also have the Canadian manufacturing rights for these products which will be undertaken when the Canadian volumes being marketed make this approach feasible. An up to date knowledge of activities in the automobile, manufacturing and processing industries is obtained because of the broad marketing exposure of these products relating to these industries. This knowledge has served as a direct contribution to developments which have been undertaken in both our propane marketing operation and our resource production operation. The rewards received from this branch of your company's activities are, therefore, two-fold: the direct profits from this activity and the contribution to the exposure in other areas of operation.

The Astro-Shield product is a new line of car polish made with a silicone base by a secret process yet unable to be duplicated. It has been tested in operation for over five years and its durability is outstanding. The success of this product has permitted the company to warrant the polish for thirty months or thirty thousand miles on new cars, providing the application is done under controlled conditions by a process known only to the company and its franchised operators. We have had enthusiastic response to this polish method known as Astro-plating and believe that growth has just begun in this area.

We are presently investigating at least two more lines of endeavour which are new products and methods and have shown promise. We are hopeful these can soon be introduced into our area of activity in this division.

❶
❷
❸
❹

① Astro-Shield Polish
② Astro-Shield Vinyl Top Care
③ Astro-Stripper Cleaner
④ Astro-Tire Beauty

In the photograph on the right, Byron MacKenzie — sales coordinator stands beside a display of product lines including — Kendall Oils and Greases, Swarfega cleaners, and Wix Filters.


KENDALL
MOTOR OILS
Guaranteed
LUBRICATION
KENDALL
GREASE
KENDALL
GT-1
WIX
THE GOLD STANDARD / STANDARD SUPERIEUR
FILTRE A AIR
AIR FILTER
Swarfega
hand cleanser
nettoyeur a mains

Auditors' Report

To the Shareholders of
Canadian Hidrogas Resources Ltd.:

We have examined the consolidated balance sheet of Canadian Hidrogas Resources Ltd. as at August 31, 1974 and the consolidated statements of income, retained earnings, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1974 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of accounting for deposits on tank car rentals described in Note 2, have been applied, after giving retroactive effect to the change in the method of accounting for corporate income taxes described in Note 2, on a basis consistent with that of the preceding year.

As required by Section 212 of the Companies Act, British Columbia, we also report that, in our opinion, the accounting treatment accorded minority interest is appropriate in the circumstances.

DELOITTE, HASKINS & SELLS
Auditors.

November 25, 1974.

Consolidated Statement of Changes in Financial Position

For the Year Ended August 31, 1974 (with comparative figures for 1973)

	1974	1973
FUNDS PROVIDED:		
Net income for the year	$ [illegible]	$ 241,042
Add (deduct) items which do not require an outlay of funds:		
Depreciation	[illegible]	9,002
Depletion	[illegible]	1,152
Deferred income taxes	[illegible]	189,600
Deposits on tank car rentals written off	[illegible]	149,913
Financing costs written off	—	60,600
Deferred expenses written off	[illegible]	—
Gain on sale of shares of subsidiary company	—	(110,247)
Total funds provided from operations	[illegible]	541,062
Increase in long-term debt	[illegible]	530,000
Issue of capital stock	[illegible]	—
Proceeds from sale of shares of subsidiary company	—	151,247
Total funds provided	[illegible]	1,222,309
FUNDS APPLIED:		
Acquisition of gas, oil and mineral interests	[illegible]	584,419
Acquisition of gas, oil and mineral interests by purchase of subsidiaries (Note 1)	[illegible]	—
Additions to transportation equipment and other assets	[illegible]	4,350
Paid or payable on long-term debt	[illegible]	162,271
Excess cost of shares acquired over net assets of subsidiary less minority interest acquired	49,557	—
Deposits on tank cars	—	74,535
Deferred expenses and financing costs	—	38,258
Total funds applied	[illegible]	863,833
(DECREASE) INCREASE IN WORKING CAPITAL FOR THE YEAR	([illegible])	358,476
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF THE YEAR	31,511	(326,965)
WORKING CAPITAL (DEFICIENCY) AT END OF THE YEAR	$ ([illegible])	$ 31,511

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Income

For The Year Ended August 31, 1974 (with comparative figures for 1973)

	1974	1973
SALES AND OPERATING REVENUE	$19,270,500	$7,647,893
EXPENSES:		
Cost of sales and operating expenses	15,606,937	6,567,578
Selling, general and administrative expenses	1,678,752	494,507
Interest — long-term	160,933	13,440
— short-term	24,529	31,306
Depreciation and depletion	68,743	10,154
Total expenses	17,539,894	7,116,985
INCOME FROM OPERATIONS	1,730,606	530,908
OTHER CHARGES (INCOME):		
Deposits on tank car rentals written off	142,394	149,913
Financing costs	70,916	60,600
Share of income of 20% owned company	(29,308)	—
Net other charges	184,002	210,513
INCOME BEFORE INCOME TAXES	1,546,604	320,395
INCOME TAXES — deferred	756,082	189,600
— current	21,181	—
	777,263	189,600
INCOME BEFORE EXTRAORDINARY ITEM	769,341	130,795
GAIN ON SALE OF SHARES OF SUBSIDIARY COMPANY — Net of income taxes	—	110,247
NET INCOME FOR THE YEAR	$ 769,341	$ 241,042
EARNINGS PER SHARE (Note 10):		
Income before extraordinary item	30.6c	5.6c
Net income for the year	30.6c	10.3c

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Retained Earnings

For The Year Ended August 31, 1974 (with comparative figures for 1973)

	1974	1973
BALANCE AT BEGINNING OF THE YEAR		
AS PREVIOUSLY REPORTED	$ 290,538	$(109,304)
RETROACTIVE ADJUSTMENT FOR DEFERRED INCOME TAXES (Note 2)	(118,600)	40,200
AS RESTATED	171,938	(69,104)
NET INCOME FOR THE YEAR	769,341	241,042
RETAINED EARNINGS AT END OF THE YEAR	$941,279	$ 171,938

The accompanying notes are an integral part of the consolidated financial statements.

Sub

Consolidated Balance Sheet

As at August 31, 1974 (with comparative figures for 1973)

assets

	1974	1973
CURRENT ASSETS:		
Cash	$ 299,753	$ 108,049
Accounts receivable	2,982,586	1,004,311
Inventories — at the lower of average cost or net realizable value	1,833,230	322,065
Income taxes	—	3,815
Prepaid expenses and deposits	377,888	29,669
Marketable securities (market value — $13,750; 1973 — $189,938)	29,562	151,247
Total current assets	5,523,019	1,619,156
PROPERTY AND EQUIPMENT — at cost (Note 2):		
Gas, oil and mineral interests	4,268,654	705,248
Transportation equipment and other assets	351,054	214,860
	4,619,708	920,108
Less accumulated depletion and depreciation	112,831	44,088
Net property and equipment	4,506,877	876,020
OTHER — at cost:		
Deposits on tank car rentals (Note 2)	—	154,645
Deferred expenses	13,802	50,879
Excess cost of shares acquired over net assets of subsidiaries at dates of acquisition (Note 1)	360,214	252,771
Total other assets	374,016	458,295

Approved by the Board:

Director

Director

	1974	1973
TOTAL	$10,403,912	$2,953,471

The accompanying notes are an integral part of the consolidated financial statements.

liabilities and shareholders' equity

	1974	1973
CURRENT LIABILITIES:		
Bank indebtedness (Note 3)	$ 1,260,000	$ 111,000
Accounts payable and accrued liabilities	4,070,912	1,279,601
Current portion of long-term debt	318,241	162,271
Due to affiliated company	—	34,773
Income taxes	21,181	—
Total current liabilities	5,670,334	1,587,645
LONG-TERM DEBT — less portion included in current liabilities (Note 4)	1,823,699	491,041
DEFERRED INCOME TAXES (Notes 2 and 5)	945,682	189,600
MINORITY INTEREST IN COMMON SHARES OF A SUBSIDIARY	57,848	—
SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized:		
5,000,000 common shares with a par value of $1 each		
Issued and fully paid (Note 6):		
2,683,302 shares	857,147	513,247
Contributed surplus — arising on issue of common shares	107,925	—
Retained earnings	941,279	171,938
Total shareholders' equity	1,906,351	685,185
TOTAL	$10,403,912	$2,953,471

Notes to the Consolidated Financial Statements

August 31, 1974

1. BASIS OF PRESENTATION:

These consolidated financial statements include the accounts of the parent company and those of its wholly-owned subsidiaries, Hidrogas Limited, Hidrogas Incorporated, Pet Chem Distributing Ltd. and Hidrogas Inc. The company has also included the accounts of its 55.6% owned subsidiary, Vanalta Resources Ltd.

The accounts of Hidrogas Incorporated, a U.S. corporation have been converted to Canadian funds as follows:

(a) current assets and liabilities, at par;
(b) property and equipment, income and expenses at the rates prevailing on the dates of the transactions.

On March 31, 1974, the company acquired 100% ownership of a former 20% owned affiliate (until acquisition, accounted for by the equity method), Hidrogas Incorporated, by surrendering certain marketable securities valued at $107,643. This acquisition has been accounted for by the purchase method, and the operations of Hidrogas Incorporated, a marketer of petroleum and natural gas products, have been included in these financial statements from April 1, 1974.

Details of the net assets of the companies acquired are as follows:

Total assets	$1,062,047
Total liabilities	402,337
	659,710
Less minority interest therein	57,846
	601,864
Cost of acquisitions	709,307
Goodwill	$ 107,443

The goodwill of $107,443 will be amortized beginning in 1975 over a period of 40 years.

Had these subsidiaries been acquired as of September 1, 1973, the accompanying financial statements would show the following:

Sales	$20,342,111
Net income for the year	$ 793,047
Earnings per share (Note 10)	31.6c
Fully diluted earnings per share (Note 10)	25.2c

On August 15, 1974 the company acquired 1,850,000 voting shares of Vanalta Resources Ltd. for cash of $313,856 and 140,000 shares of the company valued at $1.75 per share; a total consideration of $558,856. In addition, the company acquired the right to purchase an additional 300,000 voting shares of Vanalta at 30c per share which were held in escrow under the control of the Vancouver Stock Exchange. Subsequent to August 31, 1974, the company acquired 45,000 shares formerly held in escrow, for cash of $6,675 and 3,900 shares valued at $1.75 per share; a total consideration of $13,500. The acquisition of Vanalta Resources Ltd., an operating oil and gas company, has been accounted for by the purchase method, and its operations have been included in these financial statements from August 15, 1974.

2. SUMMARY OF ACCOUNTING PRACTICES AND RESTATEMENTS:

(i) Commencing in 1974, the company has retroactively adopted the deferral method of income tax allocation for all timing differences between reported incomes for financial statement purposes and those reported for income tax; these timing differences primarily result from the company's claiming capital cost allowance and drilling and exploration costs in excess of the related depreciation and depletion provisions charged against income.

This change in accounting practice has been applied retroactively since inception of the company, and as a result deficit at August 31, 1972 has been reduced by $40,200 and net income for the year ended August 31, 1973 has been reduced by $158,800.

(ii) The company follows the full cost method of accounting for its resource properties whereby costs of exploring for and developing oil and gas reserves are capitalized and these costs and well equipment costs are depleted and depreciated on a unit of production basis based on proven oil and gas reserves.

Depreciation of transportation equipment and other assets is computed under the declining-balance method at rates of 4% and 20% to 30% respectively.

(iii) During the year, the company adopted the policy of writing off all deposits on tank car rentals, whereas the previous practice was to write off all deposits over two years old. This change in policy has reduced income for the year by $170,900.

3. BANK INDEBTEDNESS:

The bank loan is secured by assignment of book debts and certain inventories, and partially secured by certain gas, oil and mineral interests.

4. LONG-TERM DEBT:

Details of long-term debt are as follows:

	1974	1973
12% Note payable, maturing July 1975, repayable at $2,800 per month including interest, secured by certain equipment	[illegible]	$123,312
Mortgage payable, non-interest bearing, repayable in annual installments of $75,000 decreasing to a final payment of $54,000 July 1, 1979	[illegible]	404,000
On acquisition of properties, to be repaid out of proceeds of production loans	—	126,000
Production loans, interest at 1½% above prime rate, to be repaid in equal monthly installments of $19,340 including interest, which will approximate $140,000 for the year	710,890	—
9%, 10 Year convertible debenture, due 1984, interest payable quarterly, convertible into common shares of the company at the rate of 690 shares for each $1,000 principal	1,000,000	—
	[illegible]	653,312
Portion due within one year	[illegible]	162,271
	$1,425,690	$491,041

The production loans are secured by a first charge against certain gas, oil and mineral interests. The mortgage payable is secured by a second charge against certain gas, oil and mineral interests; the 9% debenture is secured by a second charge against the remaining gas, oil and mineral interests and by a floating charge on all other assets of the company.

5. INCOME TAXES:

For income tax purposes the companies are entitled to claim capital cost allowance and drilling and exploration costs in excess of the related depreciation and depletion provisions charged against income. As well, a subsidiary company has claimed certain other expenses for tax purposes in excess of those charged against income. Another subsidiary company has a tax loss of approximately $200,000 which may be utilized until 1978 to reduce future taxable incomes; the income tax reductions from the use of these losses will be recorded when the losses are utilized.

6. CAPITAL STOCK:

	Capital Stock				
	Number of Shares	At par of $1	Discount	Net	Contributed Surplus
Balance, August 31, 1973 . . .	2,339,402	$2,339,402	$1,826,155	$513,247	$ —
Issued on acquisition of petroleum and natural gas properties . . .	200,000	200,000	—	200,000	—
Issued on acquisition of Vanalta Resources Ltd. (Note 1)	143,900	143,900	—	143,900	107,925
	2,683,302	$2,683,302	$1,826,155	$857,147	$107,925

Of 1,700,000 common shares issued during 1969 for the acquisition of Hidrogas Limited, 510,000 are held in escrow under the control of the Alberta Securities Commission and the Calgary Stock Exchange.

The company has reserved 300,000 shares for issuance to officers and employees under a stock option plan. Options in respect of 100,000 shares have been granted at a price of $1 per share and may be exercised to acquire up to 20% annually of the shares under option on a cumulative basis until August 15, 1977 on 65,000 shares and to May 1, 1979 on 35,000 shares.

An option in respect of 25,000 shares has been granted at a price of $1.30 per share and may be exercised to acquire up to 20% annually of the shares under option on a cumulative basis until November 10, 1978.

The company has granted non-transferable stock purchase warrants to two individuals for a total of 50,000 shares at $2 per share, exercisable until February, 1979.

None of the above stock options or stock purchase warrants have been exercised to date.

7. REMUNERATION OF DIRECTORS AND OFFICERS:

The company has six directors and five officers, four of whom serve in both capacities. The directors' remuneration amounted to $89,250 in 1974 of which $46,150 was paid by subsidiaries. The officers' remuneration amounted to $106,250 in 1974 of which $63,150 was paid by subsidiaries.

8. CONTINGENT LIABILITIES AND COMMITMENTS:

a) the company may be liable for certain charges for the use of U.S. tank cars in Canada; the total liability will not exceed $10,500 per year. The company has entered into a five year lease until 1977 for these tank cars at an annual rental of $147,000.

b) the company has entered into a lease agreement for office premises for three years with an option for an additional two years at an average annual rental of approximately $38,000.

9. SUBSEQUENT EVENT:

The company has agreed upon the issue of a $1,000,000, 12% floating charge debenture. The debenture will be secured by certain oil and gas properties of a wholly-owned subsidiary company and by a floating charge on all of the assets of Canadian Hidrogas Resources Ltd. The purchaser of the debenture also will receive a non-transferable stock purchase warrant for 300,000 common shares at $1.60 each which will expire December 31, 1978. The debenture will be repayable in sixty equal monthly instalments of $5,600 and the balance of $664,000 will be due on February 15, 1980.

10. EARNINGS PER SHARE:

Earnings per share have been calculated on the weighted average number of shares outstanding during the year.

Fully diluted earnings per share would have been 24.5c if,

(a) the $1,000,000, 9% debenture had been converted into common shares at September 1, 1973 and

(b) the employee stock options and outstanding share purchase warrants had been exercised on September 1, 1973 and that the funds derived therefrom had been invested to produce an annual return of 10% before applicable income taxes.

Canadian Hidrogas Resources Ltd.
and Subsidiaries
nineteen seventy-four annual report

A CANADIAN COMPANY
DEVELOPING
CANADIAN RESOURCES

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